

STATE OF ALABAMA
DEPARTMENT OF INSURANCE

REPORT ON EXAMINATION
AS OF
DECEMBER 31, 2001
OF
SOUTHLAND NATIONAL INSURANCE CORPORATION

Participation:
Alabama
Southeastern Zone, NAIC

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AFFIDAVIT

STATE OF ALABAMA COUNTY OF TUSCALOOSA

Mary B. Packard, being first duly sworn, upon her oath deposes and says:

That she is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

That an examination was made of the affairs and financial condition of Southland National Insurance Corporation, for the period of January 1, 1997 through December 31, 2001.

That the following 33 pages constitute the report therein to the Commissioner of Insurance of the State of Alabama.

And that the statements, exhibits, and data therein contained are true and correct to the best of her knowledge and belief.

Mary B. Packard, CFE
Examiner-in-charge

Subscribed and sworn to before the undersigned authority this 23rd day of September 2002.

Lynda A. Holt
(Signature of Notary Public)

Lynda A. Holt Notary Public
(Print Name)

in and for the State of Alabama

My Commission expires _____
NOTARY PUBLIC
STATE OF ALA. AT LARGE
MY COMMISSION EXPIRES 8/23/2004



DON SIEGELMAN
GOVERNOR

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September 23, 2002

Honorable Diane Koken
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Honorable D. David Parsons
Commissioner of Insurance
State of Alabama
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Dear Commissioners:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination has been made of the affairs and condition of the

SOUTHLAND NATIONAL INSURANCE CORPORATION
Tuscaloosa, Alabama

as of December 31, 2001, at its home office located at 1812 University Boulevard, Tuscaloosa, Alabama, 35401. Where the term "Company" is used within the report, it refers to Southland National Insurance Corporation. The report of examination is submitted herewith.

SCOPE OF EXAMINATION

The last prior examination of the Company was as of December 31, 1996. The current examination covers from December 31, 1996, through December 31, 2001. Events subsequent to December 31, 2001, have been reviewed as required and are reported herein as deemed appropriate.

The examination has been conducted in accordance with the statutory requirements of the Alabama Insurance Code and the regulations and bulletins of the Alabama Department of Insurance; in accordance with the applicable guidelines and procedures of the NAIC; and in accordance with generally accepted examination standards.

The examination included a general review of operations, administrative practices and compliance with statutes and regulations. Income and disbursement items were tested for selected periods. Assets were verified and valued and all known liabilities were determined or estimated as of December 31, 2001, as shown in the financial statements contained herein.

In compliance with requirements of the Alabama Department of Insurance, the president, and the chief financial officer of the Company executed a letter of representation certifying that the Company had valid title to all its reported assets, and that it did not have unreported liabilities as of December 31, 2001.

Within this report, discussions of financial statement balances have been confined to those items for which a material change in the financial statements has been noted, or for which comments and/or recommendations have been made.

ORGANIZATION AND HISTORY

Since the Company is a product of a merger between two Alabama domestic insurers, a brief history of each is related as follows:

Southland National Insurance Corporation (SNIC):

SNIC had its origins in 1950, as an Alabama mutual aid association under the name, Southland National Insurance Company (Old Southland). In 1964, Old Southland was acquired by Lecil Dean Gray, who sold its existing book of small health and accident policies. Mr. Gray then commenced the sale of the "Founders Policy," a \$500 life policy which was participating and convertible at the end of six years into a whole life policy. Founders Policies were sold in conjunction with a dividend trust and stock procurement agreement, whereby trust accumulations, dividends and contributions, were used to capitalize a legal reserve life insurance corporation.

On January 21, 1969, the trust principle (which was then in excess of \$500,000) was contributed to a newly formed legal reserve life insurance corporation, New Southland National Insurance Company (New Southland). At this time the Founders Policies became convertible to participating whole life policies, and the amount of dividends accumulated were exchangeable for an equivalent amount of New Southland common stock, in accordance with the dividend trust and stock procurement agreement. All of the assets and liabilities of Old Southland were transferred to New Southland. The original capital stock of New Southland consisted of 239,559 common shares, par value \$1.00, issued and outstanding.

On April 5, 1971, New Southland's authorized capital stock was increased from 400,000 shares to 5,000,000 shares; par value remained \$1.00 per share.

On May 27 1988, New Southland's Articles of Incorporation were amended to change its name to Southland National Insurance Corporation (SNIC).

On June 5, 1992, a one-for-four reverse stock split was affected on SNIC's common stock. The number of authorized shares was thereby reduced to 1,250,000, and the par value was increased from \$1.00 per share to \$4.00 per share.

On May 27, 1994, the par value of SNIC's common stock was increased from \$4.00 to \$6.00, thereby increasing the authorized capital to \$7,500,000. Paid up capital was accordingly increased to \$1,502,718 in respect to the 250,453 shares outstanding. The \$500,906 increase in paid up capital was funded by a transfer from paid in surplus. There were no further changes in the capital stock of SNIC.

Southwide Life Insurance Corp. (Southwide):

Southwide was incorporated on February 14, 1983, under the name, Freedom Life Insurance Company. It was formed as a subsidiary of Collateral Investment

Company, an Alabama limited partnership. Subsequently, the name of Collateral Investment Company was changed to Collateral Mortgage Company, Ltd. (CML).

On January 18, 1986, the name Freedom Life Insurance Company was changed to Southwide Life Insurance Corp.

On October 1, 1990, a reorganization of CML resulted in the transfer of 100% of the stock of Southwide to a newly formed holding company, Collateral Investment Corp. (CIC). The stock of CIC was distributed to the partners of CML. At that time the majority owner of both CML and CIC was William Thomas Ratliff, Jr., so there was no change in the ultimate control of Southwide.

The capital stock of Southwide at the date of the merger consisted of 1,500,000 common shares issued and outstanding, par value \$1.00. Gross paid in and contributed surplus amounted to \$1,000,000.

The Company (subsequent to the merger):

Subsequent to the merger, the Company survived under the name and charter of Southland National Insurance Corporation, but under the ownership and control which formerly applied to Southwide. The Company's capital stock as of December 31, 2001 amounted to \$1,502,718, consisting of 1,250,000 common shares authorized, par value \$6.00, of which 250,453 were issued and outstanding. Gross paid in and contributed surplus amounted to \$890,042.

GROWTH OF THE COMPANY

The following schedule presents financial data which reflect the growth of the Company during the period under examination.

<u><i>Year</i></u>	<u><i>Premium Income</i></u>	<u><i>Admitted Assets</i></u>	<u><i>Liabilities</i></u>	<u><i>Capital & Surplus</i></u>
* 1996	\$10,200,481	\$44,629,335	\$39,260,233	\$5,369,102
1997	10,326,203	52,217,765	46,091,628	6,126,137
1998	10,663,044	50,519,244	43,108,275	7,410,969
1999	9,896,321	55,427,036	48,099,277	7,327,759
2000	13,131,929	62,392,498	55,078,277	7,314,221
* 2001	15,331,039	71,464,210	63,910,872	7,553,338

* The data for the year indicated is per examination. Data for the remaining years was obtained from the Company Annual Statements.

HOLDING COMPANY AND AFFILIATES

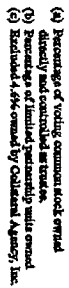
Holding Company Registration and Reporting

The Company is deemed to be subject to the Alabama Insurance Holding Company Regulatory Act of 1973, as defined in Section 27-29-1, Code of Alabama, 1975, as amended. The Company is responsible for holding company registration and periodic informational filings with the Alabama Department of Insurance, in accordance with Section 27-29-4, Code of Alabama, 1975, as amended and Departmental Regulation No. 55.

Holding company filings and amendments to registration statements made on behalf of the Company, from December 31, 1996 through the date of this report, were reviewed. The Company did not provide evidence that the Alabama Department of Insurance approved the Administrative Services Agreement, the Investment Advisory Agreement and the Mortgage Purchasing and Service Agreement so the Company was not in compliance with 27-29-5(b)(4) Code of Alabama 1975, as amended. The section states "all management agreements, service agreements and all cost sharing arrangements"... involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least 30 days prior thereof." The Company acknowledged and the Form A documentation represented that the agreements would be provided to the Alabama Department of Insurance for review through Form Ds. However, through an inadvertent failure, the Company did not file Form Ds as required.

The following page is an Organizational Chart of the Holding Company.

W.T. RATLIFF, JR.



Agreements with Affiliates

At December 31, 2001, the Company had the following agreements with its affiliates:

Investment Advisory Services, with Collateral Mortgage, Ltd. (CML)

This agreement, dated January 1, 1997, was in effect between CML and the Company. This agreement provides for CML to manage the Company's securities investments, in accordance with the Company's procedures, objectives, limitations and restrictions. Termination may be made by annual payments to CML, at graduated rates of .20% on the first \$20 million, to .125% on the excess over \$20 million of investments on the fixed securities and rates of .25% on common and preferred stocks, not including affiliated equities.

Agreement for Cost Sharing, with CML

This agreement, dated January 1, 1991, provides for cost sharing among all affiliates of the holding company system of which the Southwide Life Insurance Company (Southwide) was a member prior to the merger. The Company signed an assumption agreement on January 2, 1997 to assume all the rights and obligations of Southwide. The agreement provides for reasonable, customary and usual charges for services rendered by one affiliate for the benefit of another. Only actual costs for services actually rendered may be charged, except that costs may be estimated when costs cannot be definitively determined. The agreement provides for a one-year term with annual renewal and termination by either party after 60 days prior written notice.

Mortgage Purchasing and Service Agreement, with CML

This agreement, dated December 31, 1986, was between Southwide and CML. The agreement has continued with the Company, uninterrupted by the merger even though no assumption agreement was signed by the Company to assume all rights and obligations from Southwide. The agreement provides the terms under which the Company may purchase mortgage loans from CML; and, provides for CML's continuing servicing of said mortgage loans for specified fees. The agreement may be terminated by CML for certain causes or by the Company after 60 days written notice to CML.

Transactions with Affiliates

On December 21, 1999, NAVA signed a promissory note with the Company for a principal sum not to exceed \$415,000 with the note due and payable in full on December 31, 2000, unless renewed. The note was approved by the Board of Directors at its December 21, 1999 meeting, but there was no evidence that the note

had been secured. On April 3, 2000, the Board approved increasing the promissory note from \$415,000 to \$650,000 and then on May 17, 2000 approval was given to increase the note to \$2,000,000. The Company's parent, Collateral Investment Corp. signed a guaranty agreement, after each adjustment to the promissory note was approved, to guarantee the payment of all amounts under the note owing by NAVA to the Company. However, no evidence was provided that the note had been secured on either occasion. On November 29, 2000 NAVA repaid the promissory note in full.

On October 1, 1999, the Company entered into a stock purchase agreement with North American Vision Alliance, Inc. (NAVA), an Alabama limited liability corporation and with Ron Joseph and Desmond E. Joiner (shareholders of NAVA) to purchase 65% of NAVA's outstanding capital stock (370,000 shares) for \$400,000. The Company filed a SUB-2 annual filing on NAVA in 2000 with the Security Valuation Office (SVO) of the NAIC. On September 13, 2000, the SVO informed the Company that NAVA was valued at \$91,750, which is \$308,250 less than the \$400,000 the Company was carrying the investment on its books. On December 31, 2000, the Company sold its investment in NAVA to its parent, Collateral Investment Corp. for \$400,000.

Dividends to Stockholders

During the period under examination no cash dividends were paid to stockholders. The last dividend paid to stockholders was in 1996 for \$25,045.

CORPORATE RECORDS

The Company's Articles of Incorporation, By-Laws and amendments thereto were inspected and found to provide for operation of the Company in accordance with Alabama statutes and regulations and with accepted corporate practices. The Company had a Restatement and Amendment of the Articles of Incorporation on September 1, 1998 and an Amendment to the By-Laws on September 1, 1998. The Company did not provide documentation that amendments were filed with the Alabama Department of Insurance, which was not in compliance with Departmental Regulation No. 37, Code of Alabama 1975, as amended. The Regulation states, "amendments to Articles of Incorporation and By-Laws should be filed with the Alabama Department of Insurance."

Minutes of the meetings of the stockholders, board of directors and committees of the Company from December 31, 1996 through the most recent meetings recorded, were reviewed. The minutes appeared to be complete and to adequately document the actions of the respective governing bodies.

MANAGEMENT AND CONTROL

Stockholder

As of December 31, 2001, the Company was owned 100% by Collateral Investment Corp. (CIC), a Delaware corporation.

Board of Directors

The Company's By-Laws provide that its business and affairs shall be managed by a board of directors of not less than three or more than twenty-one persons. Directors shall be elected to three-year terms with approximately one-third of the directorships expiring in any given year. Directors are elected by the stockholder and serve until their successors are elected and qualified.

Directors serving at December 31, 2001 were as follows:

<u>Director/Residence</u>	<u>Principal Occupation</u>
Dennis Earl Painter Northport, Alabama	President, Company
William Harrison Lanford Tuscaloosa, Alabama	Retired President / CEO, Company
Roger Dale Murphree Birmingham, Alabama	Vice President, Collateral Mortgage, Ltd.
Lizabeth Reynolds Nichols Birmingham, Alabama	General Counsel, New South Federal Savings Bank
Robert Anthony Rinaldi Birmingham, Alabama	Vice President, Controller, Assistant Secretary and Treasurer

Committees

On May 17, 1999, the Board of Directors of the Company held a meeting and elected a Year 2000 Committee to appropriately address business matters affected by Year 2000 issues. Of the members elected to serve on this committee, two were not members of the Board of Directors. The Company was not in compliance with Section 10-2B-8.25(a), Code of Alabama 1975, as amended, which states "a board of directors may create one or more committees and appoint members of the board of directors to serve on them."

Officers

Officers are elected by the Board of Directors at its annual meeting, and serve for one year or until their successors are elected. Officers elected by the Board of Directors and serving at December 31, 2001 were as follows:

Dennis Earl Painter	President
William David Bertanzetti	Sr. Vice President/Supplemental Benefits
Lizabeth Reynolds Nichols	General Counsel and Secretary
Robert Anthony Rinaldi	Vice President, Controller, Treasurer, and Assistant Secretary
Robbi Renee Earley	Vice President, Assistant Secretary, Training and Compliance
Jo Ann Mansfield	Vice President/Advance Funeral Planning
Robert Hugh Rust	Vice President/PEEHIP
Steven Randall Mathews	Vice President/Advance Funeral Planning
David William Palmer	Vice President/Information Systems
Daniel Arnett White	Assistant Vice President/Life Administration

Conflict of Interest

The Company adopted a new conflict of interest policy on February 27, 1997. Directors, officers and other personnel are subject to said policy and are to report any conflict of interest, or potential conflict of interest to the president or the Board of Directors. The president is required to report all such conflicts, or potential conflicts, at the next board of directors meeting.

Conflict of interest statements, executed by the Company's directors, officers and key personnel, applicable to the years 1997 through 2001 were reviewed. One potential

conflict of interest was reported, but it was deemed not to be significant after review by the appropriate Company officials.

See **SUBSEQUENT EVENTS** (page 29) for further discussion on conflicts.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2001, the Company was covered by fidelity bond insurance, in the aggregate amount of \$7,000,000, insured by the Federal Insurance Company, produced by The Harmon-Cone Company, Inc. The amount of the coverage was found to exceed the minimum recommended by the NAIC.

Other insurance coverage maintained by the Company, at December 31, 2001, included the following:

General Liability	Automobile Liability
Excess Liability	Workers Compensation
Bodily Injury by Accident & Disease	Excess Umbrella
Directors & Officer Liability	Property & Liability Insurance

EMPLOYEE AND AGENTS WELFARE

Employee Benefits

As of December 31, 2001, benefits provided by the Company to its employees included the following:

Breaks	401(k) Plan
Lunch	Continuing Education
Flextime	Tuition Reimbursement
Bereavement Leave	COBRA Benefits
Family Medical Leave	Health Insurance
Paid Holidays	Dental Insurance
Jury Duty Leave	Group Life
Personal Paid Time Off	Short & Long Term Disability
Paid Vacation	

Regional managers, who represent the Company's liaison with its agents, are salaried employees and are eligible for all employee benefits. Agents who are paid on commission are not eligible for benefits.

Employment Contracts

The retired president of the Company, William Harrison Lanford, has an employment contract which was in effect at December 31, 2001. The contract resulted in a material liability to the Company, which has been reported in the Company 2001 Annual Statement.

TERRITORY

As of December 31, 2001, the Company was licensed to transact insurance business in the following jurisdictions:

Alabama	Kentucky	South Carolina
Arkansas	Louisiana	Tennessee
Florida	Mississippi	Texas
Georgia	North Carolina	Virginia

SCHEDULE OF SPECIAL DEPOSITS

At December 31, 2001, the Company had securities on deposit with the following states, in compliance with the requirements for transacting insurance therein:

	<u>Par Value</u>	<u>Statement Value</u>	<u>Fair Value</u>
Alabama:			
Hertz Corporation, 7.40%, due 3/01/11	\$ 250,000	\$ 255,905	\$ 241,305
Countrywide Capital I, 8.00%, due 12/15/26	1,000,000	1,015,673	981,730
Dayton Hudson Co., 7.875%, due 6/15/23	150,000	149,685	159,714
Arkansas:			
Commonwealth Edison, 8.0%, due 4/15/23	50,000	50,460	50,460
Pacific Bell, 7.75%, due 9/15/32	25,000	24,360	24,943
Pacific Bell, 7.5%, due 2/01/33	50,000	49,630	49,306
B'ham Baptist Med Ctr, 7.2%, due 8/15/06	100,000	100,354	100,354

	<u>Par Value</u>	<u>Statement Value</u>	<u>Fair Value</u>
Florida:			
MBIA, Inc., 6.625%, due 10/01/28	250,000	237,271	237,271
Bank of America CD, 3.98%, due 4/10/02	50,000	50,000	50,000
Georgia:			
U.S. Treasury Notes, 6.875%, due 5/15/06	35,000	34,835	34,835
Vero Beach, FL W&S, 6.00%, due 12/01/04	50,000	49,932	49,932
North Carolina:			
U.S. Treasury Note, 5.875%, due 2/15/04	100,000	96,237	96,237
South Carolina:			
Lion Connecticut Hldg., 8.00%, due 1/15/17	190,000	186,405	186,405
Tennessee:			
GNMA Pool 9236M, 9.75%, due 1/20/17	9,593	9,278	9,278
Virginia:			
U.S. Treasury Bond, 7.125%, due 2/15/23	250,000	247,727	247,727
Conyers, GA Dev Rev, 7.80%, due 4/01/12	<u>100,000</u>	<u>99,299</u>	<u>99,299</u>
TOTALS	<u>\$2,659,593</u>	<u>\$2,657,051</u>	<u>\$2,618,796</u>

These securities were confirmed with the respective custodians, in conjunction with the examination of the cash and bond accounts.

MARKET CONDUCT

Plan of Operation

The Company's primary lines of business are pre-need life insurance products, which are marketed through funeral homes, and group dental, which is marketed by Collateral Benefits Group, Inc. The Company was licensed in twelve states at December 31, 2001, but in Texas and Virginia the Company was in negotiations on the policy forms and had not started selling its pre-need products. The group dental products were sold by the Company in the state of Alabama. The Company intends to expand its territory into other states, where the business is deemed to be profitable and licensure requirements can be met.

The Company's agency force consists of funeral homes and individual agents, within certain funeral homes. Regional managers are under the direction of the Company's senior vice president of marketing, and are for the recruitment of funeral homes and agents to do business with the Company.

The Company had small amounts of insurance, written on a large variety of life, disability, and health insurance plans, in force at December 31, 2001. The larger portion of the life plans (other than pre-need), and the health and disability products (other than the group dental) had been discontinued at December 31, 1996. The Company discontinued writing universal life as of November 30, 1997.

The Company continued to be a third party administrator for the Public Education Employee's Health Insurance Board (PEEHIP). The contract with PEEHIP was renewed October 1, 2001 for a three-year-term. Under the terms of said contract, the Company administers self-insured benefit programs for indemnity, vision, dental, and cancer insurance.

The Company became a third party administrator to two other corporations for three year terms – January 1, 2001 through December 31, 2003. Under the terms of the contracts, the Company will administer dental plans established for the 1,559 and the 1,076 employees of the respective corporations.

Administrative fees from its TPA work are paid to the Company monthly, and said fees provided approximately 8.6% of the Company's total revenues for 2001.

Policy Forms, Underwriting and Business in Force

The Company's active policy forms were inspected and found to be approved by the Alabama Department of Insurance.

The Company's life insurance in force, at December 31, 2001, consisted of the following types of business:

Ordinary whole life and endowment	\$106,045,000
Ordinary term life	6,553,000
Credit Life	2,271,000
Group Life	<u>2,618,000</u>
TOTAL	<u>\$117,487,000</u>

The ordinary life products, including the preneed, accounted for about 95.8% of the Company's business in force.

Advertising

The Company did not have any formal advertising programs in effect at December 31, 2001.

Compliance with Agents' Licensing Requirements

A sample of commissions disbursed by the Company was traced to a listing of agents licensed to write business for the Company, which was provided by the Alabama Department of Insurance. No payments to unlicensed persons were found.

Claims Payment Practices

A sample of claims incurred by the Company during the examination period was reviewed with regard to compliance with policy provisions, timeliness of payment, and adequacy of documentation. No noteworthy discrepancies were found.

Privacy Standards

The examiners reviewed the Company's privacy procedures and found the following:

1. The Company required its staff to attend training on the privacy standards and guidelines. Every staff member signed a document stating that he/she had attended the training and would abide by the Company's procedures.
2. The Company does not accept an application unless the potential policyholder has signed an initial privacy notice.
3. The Company sent out the annual privacy notices to its policyholders.
4. The Company relays privacy information as a part of the Company's webpage.
5. The Company does not disclose any nonpublic information on its policyholders unless required by law. This includes personal health or financial information. For this reason, the Company does not need to provide opt-out statements to its policyholders.

Overall, the examiners determined that the Company was following the privacy procedures and standards contained in Chapter 482-1-122, Code of Alabama, 1975, as amended.

REINSURANCE

Assumed

The Company did not assume any reinsurance during the examination period.

Ceded

All reinsurance agreements were amended to allow the Company to increase its retention limits to \$50,000, and to allow recapture of existing business to \$50,000.

The following were the reinsurance agreements in effect at December 31, 2001:

Agreements with Swiss RE America, Stamford, Connecticut

Yearly Renewable Term Waiver of Premium (Automatic) – This agreement, effective September 1, 1984, covers term life, waiver of premium and additional term life written under universal life policies. Effective October 1, 1992, it was amended to add coverage of a college plan of life and accidental death benefits. Effective December 5, 1996, this agreement was amended in respect to the merger, and to provide for an increase in the Company's retention to \$50,000.

Bulk Accidental Death – This agreement, effective January 1, 1988, provides for 100% reinsurance of the Company's accidental death exposure on individual policies not covered under other reinsurance.

Agreements with Optimum Re Insurance Company (Optimum Re), Dallas, Texas

Automatic and Facultative Reinsurance – The agreement was effective October 1, 1991, on all excess coverage on life policies. The agreement may be terminated for new business after three months written notice by either party. These agreements were amended December 6, 1996, in respect to the Company's assumption of Southwide's business, and to increase the Company's retention to \$50,000.

Yearly Renewable Term (Automatic and Facultative) – This agreement, effective September 1, 1987, provides for reinsurance on life and waiver of premium on thirty year mortgage endowments. This agreement may be terminated for new business after 90 days prior written notice by either party. This agreement was amended December 6, 1996, in respect to the Company's assumption of Southwide's business, and to increase the Company's retention to \$50,000.

ACCOUNTS AND RECORDS

Internal Accounting Records

The Company maintained all its records on an IBM AS400 and four servers. The Company used three different software packages to track its business. The Company used EAS software for its accounting needs, LSP software to track its life and annuity business, and HBMS software for its dental and supplemental business.

The examiners performed an extensive review of the Company's computer system. The examiners found that the Company has no procedures in place for adding individuals to the list of those authorized to have access to computer resources, changing their access capabilities or deleting them from this list which is a major control for any computer system.

In addition, it was noted that no disaster recovery plan existed during the review period. In January 2002, the Company started working on a plan and provided a partially completed one for the examiners' review. The plan did not describe how the Company would continue business after a disaster or what techniques the Company planned to use to recover lost computer data in the event of a disaster.

Per the Information System (IS) personnel, the computer room is comprised of two rooms. The inner room contains the main computer and several servers, and the outer room is used for storage and a desktop computer set-up and software installation. An examiner entered both computer rooms unaccompanied and without the knowledge of the Company twice on July 11, 2002, and found data tapes unsecured within the outer computer room. Per the IS personnel, on the date in question, they were in the process of installing four new servers so the doors were left unlocked to facilitate access to the inner and outer computer rooms during that time. The data tapes, which were unsecured in the outer room, were test tapes used for testing and installing new software. The production tapes were in the cabinet in order, listed by the system from which they were created. All subsequent attempts by examiners to enter the computer room failed.

The IS personnel indicated that no written policies or procedures exist concerning main computer room security and no training established for the same. Per management, all IS personnel, except one programmer, have been on staff since the card proximity system was installed four year ago, and the staff is experienced and understands the importance of computer room security. In addition, management indicated that only IS personnel and senior management had access to the computer room with their electronic cards.

External Audit and Actuarial

The Company was audited from 1997 through 2001 calendar years by PricewaterhouseCoopers, LLP (PwC). The audit workpapers of PwC were made available to the examiners, and have been utilized in the examination to the extent deemed appropriate.

The Company's reserves for the year 1997 were certified by Robert Edward Kell, FSA, MAAA, Senior Vice President and Actuary for the Company. The actuarial services and certifications for the years 1999 through 2001 were performed by Wakely and Associates, Inc. Mr. Raymond J. Biscoglia, FSA, MAAA performed the review and certification for 1998 through 2000, and Michael J. Tucker, FSA, MAAA performed the review for 2001.

FINANCIAL STATEMENTS

The Financial Statements included in this report were prepared on the basis of the Company's records, and the valuations and determinations made during the examination for the year 2001. Amounts shown in the comparative statements for the year ended December 31, 2001, and for the years 1997, 1998, 1999, and 2000, were compiled from Company copies of filed Annual Statements. The statements are presented in the following order:

Financial Statements:

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THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

Statement of Assets, Liabilities, Capital and Surplus

For the Years Ended December 31,

	<u>ASSETS</u>			
	2001			2000
	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>	<u>Admitted Assets</u>
Bonds (Note 1)	\$ 59,794,341		\$ 59,794,341	\$ 49,411,689
Preferred stocks (Note1)	4,426,721		4,426,721	4,638,237
Common stocks (Note1)	1,863,729		1,863,729	1,846,514
Mortgage loans (Note2)	839,065		839,065	1,060,969
Real estate	258,542		258,542	295,636
Policy loans	318,575		318,575	304,908
Cash and short term investments	1,333,132		1,333,132	3,012,244
EDP equipment	156,233		156,233	197,127
Federal and foreign income tax recoverable	607,402		607,402	
Guaranty fund assessments	32,147		32,147	42,487
Life insurance premium and annuity considerations	762,986		762,986	714,339
Accident and health premiums due and unpaid	53		53	
Investment income due and accrued (Note 3)	1,002,049		1,002,049	868,348
Receivable from parent, subsidiaries and affiliates (Note 4)	69,235		69,235	
Amounts due from agents	625,140	625,140		
Other assets nonadmitted	40,469	40,469		
Aggregate write-ins for other than invested assets	160,971	160,971	-	-
Total of Assets	\$ 72,290,790	\$ 826,580	\$ 71,464,210	\$ 62,392,498

LIABILITIES, SURPLUS AND OTHER FUNDS FOR 2001

	<u>2001</u>	<u>2000</u>
Aggregate reserve for life policies and contracts	\$ 61,078,586	\$ 51,854,241
Aggregate reserve for accident and health policies	6,848	6,768
Liability for deposit-type contracts	74,530	93,533
Life policy and contract claims (Note 5)	303,796	250,799
Accident and health policy and contract claims	39,601	3,868
Premiums and annuity considerations received in advance	59,342	52,927
Interest maintenance reserve	526,230	464,457
General expenses due or accrued (Note 6)	231,989	290,580
Taxes, licenses and fees due of accrued	72,782	77,744
Federal and Foreign income taxes	361,455	460,169
Unearned investment income	6,756	6,813
Amounts withheld or retained by Company as agent or trustee	132,896	96,255
Amounts held for agents' accounts	51,232	51,161
Remittances and items not allocated	59,088	58,536
Payable to parent, subsidiaries and affiliates (Note 7)	186,628	
Asset valuation reserve (Note 8)	214,635	411,012
Aggregate write-ins for liabilities	504,478	899,414
Total liabilities	\$ 63,910,872	\$ 55,078,277
Common capital stock	1,502,718	1,502,718
Gross paid in and contributed surplus	890,042	890,042
Unassigned funds (surplus) (Note 9)	5,160,578	4,921,461
Total of Capital and Surplus	\$ 7,553,338	\$ 7,314,221
Total of Liabilities and Surplus	\$ 71,464,210	\$ 62,392,498

STATEMENT OF OPERATIONS
For the Years Ended December 31,

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Income:					
Premium and annuity considerations	\$ 10,326,203	\$ 10,663,044	\$ 9,896,321	\$ 13,131,929	\$ 15,331,039
Deposit-type funds	99,392	89,800	75,265	66,766	-
Considerations w/o life contingencies and div. accumulations	16,168	8,215	-	-	-
Coupons left to accumulate at interest	1,364	164	-	-	-
New investment income	3,197,365	3,656,701	3,520,876	4,045,372	4,528,551
Amortization of interest maintenance reserve	14,320	40,878	(30,100)	52,131	59,900
Commissions and expense allowances on reinsurance ceded	4,002	2,305,733	422,708	-	-
Aggregate write-ins for miscellaneous income	<u>1,830,952</u>	<u>1,879,242</u>	<u>1,828,041</u>	<u>1,800,943</u>	<u>1,861,679</u>
Totals	\$ 15,489,766	\$ 18,643,777	\$ 15,713,111	\$ 19,097,141	\$ 21,781,169
Death benefits					
Matured endowments	\$ 2,918,786	\$ 3,733,090	\$ 4,247,014	\$ 5,496,641	\$ 6,769,454
Annuity benefits	38,970	8,580	1,565	5,912	246
Disability and accident and health benefits	163,015	81,891	150,732	549,905	199,338
Coupons, guaranteed annual pure endowments	43,518	18,717	(25,581)	57,464	433,712
Surrender benefits and fund withdrawals	568	(412)	-	-	-
Interest on policy or contract funds	1,193,203	565,636	318,296	462,002	391,923
Payments on supplementary contracts w/o life contingencies	15,735	4,324	3,173	1,300	(7,570)
Increase in aggregate reserves	18,961	37,032	9,129	8,499	-
Increase in liability for premium and other deposit funds	6,296,887	(3,952,618)	5,712,496	7,048,014	7,084,192
Increase for contracts w/o life contingencies (coupon accum.)	<u>6,702</u>	<u>(50,162)</u>	<u>(30,491)</u>	<u>(47,557)</u>	<u>-</u>
Totals	\$ 10,686,671	\$ 301,411	\$ 10,385,486	\$ 13,585,678	\$ 14,871,295
Commissions on premiums and annuity considerations	860,100	801,008	901,291	1,251,508	1,553,209
General insurance expenses	3,225,019	4,176,206	3,779,288	3,886,029	133,765
Insurance taxes, licenses and fees	352,064	317,003	341,292	446,506	411,357
Increase in loading and cost of collection on deferred premium	(54,337)	16,737	44,939	77,150	411,357
Aggregate write-ins for deductions	<u>(2,063)</u>	<u>10,935,493</u>	<u>1,192</u>	<u>2,026</u>	<u>5,664</u>
Totals	\$ 15,067,454	\$ 16,547,858	\$ 15,453,488	\$ 19,248,897	\$ 21,323,063
Net gain from operations before dividends and income taxes	\$ 422,312	\$ 2,095,919	\$ 259,623	\$ (151,756)	\$ 458,106
Dividends to policyholders	20,153	(5,495)	-	-	-
Net gain from operations after dividends and income taxes	\$ 402,159	\$ 2,101,414	\$ 259,623	\$ (151,756)	\$ 458,106
Federal income taxes incurred (excluding capital gains taxes)	212,780	429,118	121,727	(191,340)	(54,753)
Net gain after dividends and before capital gains	\$ 189,379	\$ 1,672,296	\$ 137,896	\$ 39,584	\$ 512,859
Net realized capital gains or losses less capital gains tax	103,012	301,087	449,880	(113,535)	217,631
Net Income	<u>\$ 292,391</u>	<u>\$ 1,973,383</u>	<u>\$ 587,776</u>	<u>\$ (73,951)</u>	<u>\$ 730,490</u>

Reconciliation of Capital and Surplus

For the Years Ended December 31,

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Capital and surplus, December 31	\$ 5,369,102	\$ 6,126,137	\$ 7,410,969	\$ 7,327,759	\$ 7,314,221
Net income	292,391	1,973,383	587,776	(73,951)	730,490
Change in net unrealized capital gains (losses)	705,407	(231,680)	(411,741)	(266,570)	(587,245)
Change in net deferred income tax					73,730
Change in non-admitted assets	(147,961)	88,881	(228,045)	(180,314)	(206,446)
Change in reserve on valuation basis	(79,222)	(652,565)			
Change in asset valuation reserve	(13,580)	106,813	(31,200)	507,297	100,285
Cumulative effects of changes in accounting principles	-	-	-	-	128,303
Net change in capital and surplus for the year	\$ 757,035	\$ 1,284,832	\$ (83,210)	\$ (13,538)	\$ 239,117
Capital and surplus, December 31	\$ 6,126,137	\$ 7,410,969	\$ 7,327,759	\$ 7,314,221	\$ 7,553,338

NOTES TO THE FINANCIAL STATEMENTS

<u>Note 1 – Bonds</u>	<u>\$59,794,341</u>
<u>Preferred Stocks</u>	<u>\$ 4,426,721</u>
<u>Common Stocks</u>	<u>\$ 1,863,729</u>

The above captioned amounts are the same as reported on the 2001 Annual Statement.

The Company included \$531,020 of foreign securities owned at December 31, 2001 as admitted assets on Schedule D of the 2001 Annual Statement. However, none of the Company's foreign securities qualified as admitted assets under Chapters 37 and 41 of the Alabama Insurance Laws, except under Section 27-41-35, Code of Alabama 1975, as amended. The Company did not keep a separate record of all investments made under this section, as required by Section 27-41-35, Code of Alabama 1975, as amended. Management of the Company represented to the Alabama Department of Insurance that it was their intention for the foreign securities to be admitted under Section 27-41-35, Code of Alabama 1975, as amended, and to comply with all limitations and recordkeeping requirements specified by Section 27-41-35, Code of Alabama 1975, as amended.

It was noted that the Company reported LifeTree Technologies, Inc. on Schedule D - Part 2, Section 2 of the 2001 Annual Statement, and that the Company purchased the stock on December 20, 2000. The Company failed to file a SAR with the Securities Valuation Office for the stock in 2001, and therefore, the stock should have been non-admitted on Schedule D - Part 2, Section 2 of the 2001 Annual Statement per Departmental Regulation No. 98. This regulation states, "any security owned by an insurer that has not been valued by the Security Valuation Office (SVO) shall be submitted to the SVO for valuation in accordance with the procedures of the SVO.....any security not valued in accordance with this section shall be carried as a non-admitted asset on all financial statements." As the book value for this stock was \$14,400 and was immaterial, no change was made in the financial statements.

It was noted that the Company reported, on Schedule D of the 2001 Annual Statement, bonds with statement values which exceeded its call price. The total of statement values exceeding call prices was \$191,564.00. It was determined that the Company had mistakenly listed call dates for mortgage-backed securities and had reported some incorrect call prices for other securities. After the corrections were made, the total of statement values exceeding call prices was \$26,787. Section 27-37-5(4), Code of Alabama 1975, as amended states, "unless otherwise provided by

valuation established or approved by the commissioner, no such security shall be carried at above the call price for the entire issue during any period within which the security may be so called.” As the \$26,787 was immaterial, no change was made to the financial statements.

It was noted that the Company reported effective yields for loan-backed securities on Schedule D of the 2001 Annual Statement which were significantly greater or less than the interest rate reported for that security and that the Company had not been reviewing the weighted average maturity dates or prepayment speeds for loan-backed securities periodically. Per SSAP No. 43, the changes in payment assumptions and the resulting cash flows shall be reviewed periodically by the Company.

It was noted that Schedule DM of the 2001 Annual Statement reported a carrying value of \$1,260,323 more than the market value for bonds and preferred stocks at December 31, 2001.

Note 2 – Mortgage loans

\$839,065

The above captioned amount is the same as reported in the 2001 Annual Statement.

It was noted during the examination that the two mortgage servicing agreements provided were signed by companies other than the ones currently having the rights and obligations under the agreements. The agreement with Collateral Mortgage, Ltd. (CML) was originally signed by Southwide Life Insurance Corp. effective December 31, 1986, and no assumption agreement whereby the Company assumed Southwide's rights and obligations was attached. In the case of the Wells Fargo mortgage servicing agreement, it was originally signed by First Mortgage Company, Inc. effective December 31, 1969, and again there was no assumption agreement signed by Wells Fargo assuming the rights and obligations.

It was further noted that the Company did not provide documentation that the management agreements were approved by the Commissioner as required by Section 27-29-5(b)(4), Code of Alabama 1975, as amended, which states that the domestic insurer has to notify the commissioner in writing when entering into agreements at least 30 days prior and that the commissioner has not disapproved them within that period.

Note 3 – Investment income due and accrued

\$1,002,049

The above captioned amount is the same as reported in the 2001 Annual Statement.

It was noted that the Company included an interest accrual of \$43,750 for Owens Corning, which was in default and had no interest received in 2001. Per SSAP No. 34, which states, "if it is probable the investment income due and accrued balance is uncollectible, the amount shall be written off and shall be charged against investment income in the period such determination is made." The bond should have been written off and its interest should have been deemed uncollectible. Because the amount was immaterial, no change was made to the financial statements.

Note 4 – Receivable from parent, subsidiaries and affiliates

\$69,235

The above captioned amount is the same as reported on the 2001 Annual Statement.

The Company does not have a cost sharing arrangement with Collateral Benefits Group, Inc. (CBG) and it is paying the day to day expenses for CBG which is in violation of 27-29-5(b)(4) Code of Alabama 1975 as amended, which states that the insurer has to notify the commissioner in writing of its intention to enter into a management agreement, service contracts and all cost sharing arrangements at least 30 days prior, and the commissioner has not disapproved of the arrangement within that time period. The \$68,235 receivable should be non-admitted as no agreement has been approved, but because the amount is immaterial, the financial statements were not changed.

Note 5 – Life policies and contract claims

\$39,601

The above captioned amount is the same as reported on the 2001 Annual Statement.

In the calculation of this liability, the Company depended upon its IBNR to cover any excess amounts which may occur. However, the Company should have calculated its claims/benefits liability on all pending claims at year-end as a part of the overall liability for this line item. The examiner calculated the liability to be \$30,178, which was immaterial and the excess IBNR would cover it. The financial statements were not changed.

Note 6 – General expenses due and accrued**\$231,989**

The above captioned amount is \$186,268 less than the \$418,617 reported on the 2001 Annual Statement.

It was noted that in General expenses due and accrued, the Company included management fees to Collateral Mortgage Ltd. (CML) in the amount of (\$120,000), investment advisory fees to CML in the amount of (\$50,000), and investment advisory fees to Triad in the amount of (\$16,628.00). These due and accrued amounts total \$186,628.00, and should have been included under Payable to parent, affiliates, and subsidiaries as required by SSAP 67 paragraph 11. The paragraph states, "A liability shall be recognized and identified as due to affiliates for expenditures incurred on behalf of the reporting entity by a parent, affiliates, or subsidiaries or for amounts owed through other intercompany transactions." In addition, the NAIC Annual Statement Instructions state "report a liability as due to affiliates for expenditures incurred on behalf of the company by a parent, affiliate or subsidiaries or for amounts owed through other intercompany transactions." The amount was reclassified on the financial statement, but there was no change to surplus.

It was noted during the review that expenses totaling \$4,133 had been incurred before December 31, 2001, and yet the Company did not accrue for them. Per the NAIC Annual Statement Instructions, the Company should establish adequate accruals for obligations not yet paid. Because the amount was immaterial, no change to the financial statements was made.

Note 7 – Payable to parent, subsidiaries and affiliates**\$186,628**

The above captioned amount is \$186,628 more than the \$0 reported on the 2001 Annual Statement.

It was noted during the examination of general expenses that the Company had included \$186,628 for management and investment advisory fees due to companies within the holding company system. These fees should have been classified as payable to parent, subsidiaries and affiliates rather than as general expenses as required by SSAP 67 paragraph 11 which states, "A liability shall be recognized and identified as due to affiliates for expenditures incurred on behalf of the reporting entity by a parent, affiliates, or subsidiaries or for amounts owed through other intercompany transactions." Because this was a reclassification, the financial statements will be changed, but surplus will not be affected.

Note 8 – Asset valuation reserve (AVR)**\$214,635**

The above captioned amount is the same as the amount reported in the 2001 Annual Statement.

It was noted that there were two securities which were not included in AVR: (1) Preferred Stock - Enron Capital at Disposal: (\$25,000), (2) Bond - Western Resources Inc. at Disposal: (\$2,932). When the two securities were added to the calculation of AVR, numerous adjustments were made which decreased AVR.

It was noted that the Default Component, Other than Mortgage Loans was reported on the AVR as having a negative balance. According to the NAIC Annual Statement Instructions, "Individual sub-component reserves may not exceed the maximum reserve amount reported on Line 8. They also may not be less than zero. Adjust the current reserve down or up accordingly." This adjustment would increase the AVR by \$30,877.

After all the adjustments were made, AVR increased by \$12,668. Since the amount was immaterial, no change to the financial statements was made.

Note 9 – Unassigned funds**\$5,160,578**

The above captioned amount is the same as the amount reported in the 2001 Annual Statement.

Other than the reclassification, no material adjustments were made to the financial statements. The following immaterial adjustments were not made to the financial statements.

Assets – Increase/(Decrease)

Bonds	\$(41,187)
Interest Due & Accrued	(43,750)
Receivable to parent, affiliates & subsidiaries	<u>(68,235)</u>
Subtotal	<u>\$(153,172)</u>

Liabilities – (Increase)/Decrease

Life policies & contract claims	\$(30,178)
General Expenses	(4,133)
2001 Legal Expenses	(26,000)
AVR	<u>(12,668)</u>
Subtotal	<u>\$(72,979)</u>

TOTAL OF ADJUSTMENTS**\$(226,151)****CONTINGENT LIABILITIES AND PENDING LITIGATION**

Examination for contingencies and pending litigation included a review of: the Company's annual statement disclosures; holding company documents and agreements with affiliates; minutes of the corporate governing bodies; pending claims; and, the usual examination of the accounts for unrecorded items. No material contingencies were identified, and pending claims against the Company, at December 31, 2001, did not appear to present anything out of the ordinary course of business.

It was noted that the Company's management and attorneys reported two lawsuits, for which they could not estimate an amount for a liability; however, the Company was incurring expenses on attorney fees which were not accrued. SSAP 5 paragraph 9 states "...The amount of the liability shall include the anticipated settlement amount, legal costs, insurance recoveries and other related amounts...." Even though the attorneys and the Company's management could not estimate the amount of a possible settlement on the two lawsuits, management should be able to accrue a liability for the anticipated costs as they relate to outstanding litigation. The examiner reviewed the 2002 legal expenses and computed approximately \$26,000 for 2001 expenses on the lawsuits. The amount was immaterial so the financial statements were not adjusted.

The Company's president and its controller executed a letter of representation, attesting to the non-existence of unreported liabilities and contingencies as of December 31, 2001.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

Recommendations were made as a result of the last prior examinations reviewed in relation to the Company. It appeared that the Company had complied with all such recommendations.

SUBSEQUENT EVENTS

At the May 23, 2002 Annual Stockholders Meeting, the management structure of the Company was changed. Mr. Dennis Earl Painter, who had been President and Chairman of the Board, was elected President – Advance Funeral Planning, while Mr. Robert Eric Bernstein was elected President – Supplement Benefits. The reasoning behind the change was to allow both Mr. Painter and Mr. Bernstein to focus on increase marketing efforts and productivity within their respective division. Mrs. Lizabeth Reynolds Nichols was elected as Chairman of the Board.

On January 18, 2002, the Company signed a third party administrator's agreement with Benefit Plans of America, Inc. (BPA) to administer the dental plan for the members of BPA. The term of the agreement was from February 1, 2002 through January 31, 2005. It was noted that Mr. Daniel Arnett White, an Assistant Vice President of the Company, was the Director of BPA. After discussions with Mr. White, it was determined that he did not receive remuneration for his work as Director of BPA so any question of pecuniary interest was negated.

COMMENTS AND RECOMMENDATIONS

Holding Company – Page 5

It is recommended that the Company comply with 27-29-5(b)(4) which states "all management agreements, service agreements and all cost sharing arrangements".." involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least 30 days prior thereof."

Corporate Records – Page 8

It is recommended that the Company comply with Departmental Regulation No. 37, Code of Alabama 1975, as amended, which states, "amendments to Articles of Incorporation and By-Laws should be filed with the Alabama Department of Insurance."

Committees – Page 9

It is recommended that the Company comply with Section 10-2B-8.25(a), Code of Alabama 1975, as amended, which states "a board of directors may create one or more committees and appoint members of the board of directors to serve on them."

Accounts and Records – Page 17

It is recommended that the Company set up procedures for adding individuals to the list of those authorized to have access to computer resources, changing their access capabilities or deleting them from this list.

It is further recommended that the Company complete and test a Disaster Recovery Plan manual. This includes plans for the continuation of business in the event the building and all records within it are destroyed.

It is further recommended that the Company write computer room security policies and procedures, and train employees on how to implement them.

Bonds, Preferred stocks and Common stocks – Page 23

It is recommended that the Company keep a separate record of all investments made under Section 27-41-35, Code of Alabama 1975, as amended.

It is further recommended that the Company non-admit any securities that do not meet the definitions of admitted assets as specified by Chapters 37 and Chapters 41 of the Alabama Insurance Code and the NAIC Accounting Practices and Procedures Manual.

It is recommended that the Company comply with Regulation No. 98 and have all securities owned by an insurer valued by the Securities Valuation Office or non-admit the securities on all financial statements.

It is recommended that the Company comply with Section 27-37-5(4), Code of Alabama 1975, as amended, and not value securities above the call price.

It is recommended that the Company comply with SSAP No. 43 and periodically report changes in payment assumptions and the resulting cash flows.

It was noted that the Company's carrying value for bonds and preferred stocks at December 31, 2001 was \$1,260,323 more than the market value.

Mortgage loans - Page 24

It is recommended that the Company either have the new parties to the mortgage servicing agreements sign assumption agreements assuming all the rights and obligations under the agreements or have all the parties involved sign new mortgage servicing agreements.

It is further recommended that the Company comply with Section 27-29-5(b)(4), Code of Alabama 1975, as amended, and have all the management and service agreements in which it is involved approved by the Commissioner.

Investment income due and accrued - Page 24

It is recommended that the Company comply with SSAP No. 34 and non-admit investment income due and accrued on securities that should be written off.

Receivable from parent, subsidiaries and affiliates – Page 25

It is recommended that the Company comply with Section 27-29-5(b)(4), Code of Alabama 1975, as amended and have a cost sharing agreement with its affiliate, Collateral Benefits Group, Inc., approved by the commissioner.

Life policies and contract claims – Page 25

It is recommended that the Company calculate its claims/benefits liability on all pending claims at year-end as a part of the overall liability for this line item.

General Expenses Due or Accrued - Page 26

It is recommended that the Company comply with the NAIC Annual Statement Instructions when reporting a liability as due to affiliates for expenditures incurred on behalf of the Company by a parent, affiliates or subsidiaries or for amounts owed through other intercompany transactions.

It is further recommended that the Company establish adequate accruals for obligations not yet paid in its financial statements in accordance with the NAIC Annual Statement Instructions.

Payable to parent, subsidiaries and affiliates – Page 26

It is recommended that any management or investment advisory fees accrued as a payable to companies within the holding company system be accrued as payables to parent, subsidiaries and affiliates rather than as general expenses as required by SSAP 67, paragraph 11.

Asset Valuation Reserve – Page 27

It is recommended that the Company properly account for securities when calculating Asset Valuation Reserve in accordance with the NAIC Annual Statement Instructions.

It is recommended that the Company comply with the NAIC Annual Statement Instructions when calculating the Asset Valuation Reserve for components not to exceed the maximum reserve or to be less than zero.

Commitment and Contingent Liability – Page 28

It is recommended that the Company's management accrue a liability for the anticipated costs as they relate to outstanding litigation as required by SSAP 5, paragraph 9.

CONCLUSION

In concluding this Report on Examination, as of December 31, 2001, of Southland National Insurance Corporation, acknowledgment is hereby made of the courtesy and cooperation extended by all persons representing the Company during the course of the examination.

The customary examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed to the extent appropriate in connection with the verification and valuation of assets and the determination of liabilities set forth in this report.

In addition to the undersigned, the following persons represented the Alabama Department of Insurance as participants in this examination: Jayne Simms, Jeff Hawkins and Jennifer Broadhead, examiners; and Donald G. Yates, FSA, MAAA, consulting actuary.

Respectfully submitted,

A handwritten signature in black ink that reads "Mary B. Packard, CFE". The signature is written in a cursive style with a large, looped initial "M".

Mary B. Packard, CFE
Examiner-in-Charge
Alabama Department of Insurance



DON SIEGELMAN
GOVERNOR

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STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

December 19, 2001

Mr. Dennis Painter
President
Southland National Insurance Corp
1812 University Blvd.
P. O. Box 1520
Tuscaloosa, AL 35403

Re: Financial Examination As Of December 31, 2001

Dear Mr. Painter:

This letter is to inform you of a financial examination of your company called by the Alabama Department of Insurance and to authorize Mary Packard, CFE, Examiner, to conduct the examination. This authorization is pursuant to the instructions of Alabama Insurance Commissioner, D. David Parsons, and in compliance with the statutory requirements of the State of Alabama and resolutions adopted by the National Association of Insurance Commissioners.

Your examination is to commence on or about February 4, 2002, and will be conducted primarily in your offices. The expected duration of the examination is approximately two months. Preliminary planning of your examination will first begin in the offices of the Alabama Department of Insurance. The examiner will arrive in your offices on or after this date. You will be contacted by Ms. Packard regarding the exact arrival date at your offices.

The Alabama Insurance Department has adopted work policies and rules governing work hours, leave and unacceptable conduct including sexual harassment. If you have any question about our examiner's conduct at your offices, please contact me immediately.

As part of your examination, the enclosed internal control and information systems questionnaire is required to be completed for review by our examiner. Please complete and return the questionnaire to this Department within 30 days, addressed to the attention of the Examiners' Division. The questions may be answered on the questionnaire itself or on a separate sheet if additional explanation is required. If possible, your CPA's workpapers and a representative of your CPA firm should be available the week of February 4, 2002, for review at your offices.

Invoices covering examination fees and related expenses will be submitted to the appropriate company official in accordance with standard Departmental policy. Payment of any examination charges so invoiced are due within two business days following presentation of the invoice.

Sincerely

Richard L. Ford, CFE
Acting Deputy Commissioner and
Chief Examiner

RLF:dk

Enclosures

cc: Jack M. Brown, CFE
Mary Packard, CFE
Spencer Lee

EQUAL OPPORTUNITY EMPLOYER



DON SIEGELMAN
GOVERNOR

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December 19, 2001

D. DAVID PARSONS
COMMISSIONER
ASSISTANT COMMISSIONER
TREY GRANGER
DEPUTY COMMISSIONER
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
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MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

Donald G. Yates, FSA MAAA
Actuarial Resources Corporation
5424 Afton Drive
Birmingham, AL 35242

Re: Examination of Southland National Insurance Corp
As of December 31, 2001

Dear Mr. Yates:

This letter is to request and authorize your participation in the examination of the above referenced company for the purpose of computing reserves and making other valuations in your usual manner.

The examination will begin on or about February 4, 2002. The examination for this company is being conducted in the company's offices at 1812 University Blvd, Tuscaloosa, AL 35401, and will cover the period ending December 31, 2001. The expected duration of the examination is approximately two months.

The Examiner-in-Charge will be Ms. Mary Packard. Please contact her at the company after the beginning date to coordinate the scheduling of your portion of this examination. The company telephone number is (205) 345-7410.

If your schedule does not permit you to accept this assignment, please let me know so that other arrangements can be made.

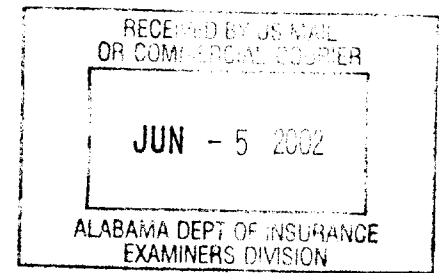
Thank you for your assistance in this matter.

Sincerely,

Richard L. Ford, CFE
Acting Deputy Commissioner and
Chief Examiner

RLF:dk

cc: Jack M. Brown, CFE
Mary Packard, CFE
Spencer Lee



June 4, 2002

State of Alabama Department of Insurance
201 Monroe Street
Suite 1700
Montgomery, AL 36130-3351

Your representatives have requested access to our working papers in connection with our audit of the December 31, 2001 financial statements of Southland National Insurance Corporation (the "Company"). It is our understanding that the purpose of your request is to facilitate your regulatory examination.

Our audit of the December 31, 2001 financial statements of the Company was conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is to form an opinion as to whether the financial statements, which are the responsibility and representations of management, present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus, results of operations, and cash flows of the Company in conformity with accounting practices prescribed or permitted by the Alabama Department of Insurance. Under these standards, we have the responsibility, within the inherent limitations of the auditing process, to design our audit to provide reasonable assurance that errors and fraud that have a material effect on the financial statements will be detected, and to exercise due care in the conduct of our audit. The concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and as to the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion. Thus, our audit, based on the concept of selective testing, is subject to the inherent risk that material errors or fraud, if they exist, would not be detected. In addition, an audit does not address the possibility that material errors or fraud may occur in the future. Also, our use of professional judgment and the assessment of materiality for the purpose of our audit means that matters may have existed that would have been assessed differently by you.

The working papers were prepared for the purpose of providing the principal support for our report on the December 31, 2001 statutory financial statements of the Company and to aid in the conduct and supervision of our audit. The working papers document the procedures performed, the information obtained and the pertinent conclusions reached in the engagement. The audit procedures that we performed were limited to those we considered necessary under auditing standards generally accepted in the United States of America to enable us to formulate and express an opinion on the statutory financial statements taken as a whole. Accordingly, we make no representation as to the sufficiency or appropriateness, for your purposes, of either the information contained in our working papers or our audit procedures. In addition, any notations, comments, and individual conclusions appearing on any of the working papers do not stand

alone, and should not be read as an opinion on any individual amounts, accounts, balances or transactions.

Our audit of the December 31, 2001 statutory financial statements of the Company was performed for the purpose stated above and has not been planned or conducted in contemplation of your regulatory examination. Therefore, items of possible interest to you may not have been specifically addressed. Accordingly, our audit and the working papers prepared in connection therewith should not supplant other inquiries and procedures that should be undertaken by the Department of Alabama for the purpose of monitoring and regulating the financial affairs of the Company. In addition, we have not audited any financial statements of the Company since December 31, 2001 nor have we performed any audit procedures since April 26, 2002, the date of our auditor's report, and significant events or circumstances may have occurred since that date.

The working papers constitute and reflect work performed or information obtained by PricewaterhouseCoopers LLP in our capacity as independent auditor for the Company. The documents contain trade secrets and confidential commercial and financial information of our firm and the Company that is privileged and confidential, and we expressly reserve all rights with respect to disclosures to third parties. Accordingly, we request confidential treatment under the Freedom of Information Act or similar laws and regulations when requests are made for the working papers or information contained therein or any documents created by the Department of Alabama containing information derived therefrom. We further request that written notice be given to our Firm before distribution of the information in the working papers (or copies thereof) to others, including other governmental agencies, except when such distribution is required by law or regulation.

Any copies of our working papers we agree to provide you will be identified as "Confidential Treatment Requested by PricewaterhouseCoopers LLP, 1901 6th Avenue North, Suite 1600, Birmingham, AL 35203, (205) 252-8400."

Very truly yours,

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP

The foregoing is accepted:
Alabama Department of Insurance

(Signature and title)

(Date)



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351

TELEPHONE: (334) 269-3550

FACSIMILE: (334) 241-4192

INTERNET: www.aldoi.org

June 5, 2002

D. DAVID PARSONS
COMMISSIONER
ASSISTANT COMMISSIONER
TREY GRANGER
DEPUTY COMMISSIONER
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

Ms. Takesha Magby
PriceWaterhouseCoopers LLP
1901 6th Avenue No., Suite 1600
Birmingham, AL 35282-9955

Re: Request for CPA Workpapers in December 31, 2001 Examination of
Southland National Insurance Company

Dear Ms. Magby:

We received your June 4, 2002 letter regarding the request for access to the audit workpapers prepared by your firm for the Southland National Insurance Company.

The request to inspect the workpapers is made by your client in accordance with Section 13 of Alabama Insurance Regulation 100. The letter of qualification your firm on behalf of your insurer client should consent and agree to make available for review by the Commissioner, his designee or his appointed examiner, the workpapers prepared in your audit. This agreement and consent is required by Section 12 of Regulation 100. Any copies of your firm's workpapers included in the Department's files will remain confidential to the extent provided under Alabama law and Regulation 100.

If you have any questions, please contact us.

Sincerely,

Richard L. Ford, CFE, CIE
Chief Examiner

CC: Jack M. Brown

Assistant Chief Examiner
Richard Ford

_____, Examiner-in-charge



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
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D. DAVID PARSONS
COMMISSIONER
ASSISTANT COMMISSIONER
TREY GRANGER
DEPUTY COMMISSIONER
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

September 27, 2002

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Dennis Painter
President
Southland National Insurance Corp
1812 University Blvd.
P. O. Box 1520
Tuscaloosa, AL 35403

RE: Southland National Insurance Corp.
Report of Examination as of December 31, 2001

Dear Mr. Painter:

Enclosed is a copy of the Report of Examination of the above-cited company as of December 31, 2001. In the event that you have any objections to this report, please advise this Department in writing within twenty (20) days, and a hearing will be scheduled, at which time you may present your arguments regarding any objections.

Unless we hear from you within the above-stated time, the report will be filed as a public document. Once filed, no annual or quarterly statements, or other material reflecting the statutory financial condition of the company may be filed with or accepted by this Department if those statements conflict with any basis of calculation to establish the value of any asset, liability, or capital account in the report.

Sincerely,

Richard L. Ford, CFE
Acting Deputy Commissioner and
Chief Examiner

RLF:dk

Enclosure

cc: Jack M. Brown, CFE
Mary Packard, CFE
Spencer Lee



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
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D. DAVID PARSONS
COMMISSIONER
DEPUTY COMMISSIONER
JAMES R. (JOHNNY) JOHNSON
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RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
LICENSING MANAGER
JIMMY W. GUNN

BEFORE THE INSURANCE COMMISSIONER
OF THE
STATE OF ALABAMA

IN THE MATTER OF:)
FINANCIAL CONDITION EXAMINATION OF)
SOUTHLAND NATIONAL INSURANCE CORPORATION)
AS OF DECEMBER 31, 2001)

ORDER

ON THE 23rd day of October, 2002, the above entitled cause came on for consideration by the Insurance Commissioner, pursuant to Regulation 103. The Insurance Commissioner, having fully considered and reviewed the Examination Report together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers, finds and states as follows, to-wit:

JURISDICTION

1. That the Insurance Commissioner has jurisdiction of this cause, pursuant to the provisions of the Alabama Insurance Code.
2. That Southland National Insurance Corporation is a domestic insurer licensed for life, disability and annuities in the State of Alabama.

FINDINGS OF FACT

1. That on September 23, 2002, the verified Financial Condition Examination Report of Southland National Insurance Corporation was filed with the Insurance Department.
2. That following receipt of the December 31, 2001 Examination Report, the Company was afforded a reasonable opportunity of not more than twenty (20) days to make a written submission or written rebuttal with respect to any matters contained in the Examination Report.
3. That Regulation 103 provides that within twenty (20) days of the end of the period allowed for the receipt of written submissions or written rebuttals, the Insurance Commissioner shall fully consider and review the report, together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers and enter an order. The order shall either: (i) adopt the examination report as filed or with modifications or corrections, including an order that the company take actions to cure any violations; (ii) reject the examination report with directions to the examiners to reopen the examination for purposes of obtaining additional data, documentation or information; or (iii) call for an investigatory hearing for purposes of obtaining additional documentation, data, information and testimony.
4. Regulation 103 requires the company to file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders within thirty (30) days of the issuance of the adopted report.

CONCLUSIONS OF LAW

1. That the December 31, 2001 Financial Condition Examination Report of Southland National Insurance Corporation shall be and hereby is Adopted by the Insurance Commissioner, pursuant to Regulation 103.

ORDER
FINANCIAL CONDITION EXAMINATION
PAGE 3

ORDER

IT IS THEREFORE ORDERED by the Commissioner of Insurance as follows:

1. That the December 31, 2001 Financial Condition Examination Report of Southland National Insurance Corporation is hereby Adopted.
2. That Southland National Insurance Corporation file an affidavit with the Alabama Department of Insurance stating that a copy of the adopted report and related orders were reviewed by the board of directors within thirty (30) days of the issuance of the adopted report.
3. That Southland National Insurance Corporation file an affidavit with the Department of Insurance within thirty (30) days of the issuance of the adopted report that the company filed a copy of the adopted report and related orders with all licensing states and the NAIC. An affidavit form is attached.
4. That Southland National Insurance Corporation shall comply with the recommendations set forth in the Report of Examination, and that failure by Southland National Insurance Corporation to so comply may result in sanctions or administrative action; and further, that Southland National Insurance Corporation shall file with the Department of Insurance within thirty (30) days of the order a statement signed by an appropriate official of the company stating the corrective action taken to comply with the recommendations made in the Report of Examination.

WITNESS My Hand and Official Seal this 23rd day of October 2002.

(SEAL)



D. David Parsons
Insurance Commissioner
201 Monroe Street, Ste 1700
Montgomery, Alabama 36130
(334) 269-3550

CERTIFICATION

I, _____, _____ (office) of
_____ Company, do hereby certify that the Report of Examination of
_____ Company as of _____, _____, was filed with all states in
which _____ Company is licensed, and with the office of the National Association of
Insurance Commissioners.

By: _____

Sworn and subscribed before the undersigned authority on the _____ day of _____, 2002.

Seal

Notary

Southland National Insurance Corporation

1812 University Boulevard
Tuscaloosa, Alabama 35401

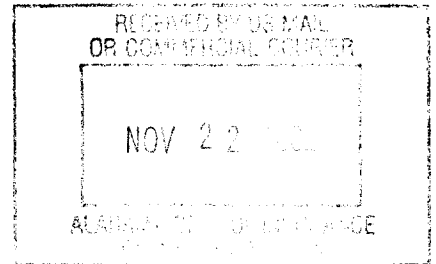
P. O. Box 1520
Tuscaloosa, Alabama 35403

(205) 345-7410
(205) 343-9013 (fax)

Lizabeth R. Nichols, Esq.
Vice President and General Counsel
1900 Crestwood Boulevard
Birmingham, Alabama 35210
Direct Dial - (205) 951-1086
Fax - (205) 951-7069

November 21, 2002

Honorable D. David Parsons
Insurance Commissioner
201 Monroe Street
Montgomery AL 36130



RE: Financial Examination Report Dated December 31, 2001 ("Report") –
Southland National Insurance Corporation ("Southland")

Dear Honorable Commissioner Parsons:

The following is our response to the Order concerning the Financial Examination Report dated December 31, 2001 regarding Southland. Provided below are the actions that have been taken or will be taken by Southland in regard to the Comments and Recommendations set forth in the Report. The Comments and Recommendations set forth in the Report are summarized herein for your convenience in review.

1. **Holding Company – Page 5**

It is recommended that the Company comply with § 27-29-5(b)(4) Code of Alabama 1975, as amended, which states "all management agreements, service agreements and all cost sharing arrangements involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least 30 days prior thereof."

Corrective Action: Southland is in the process of preparing all documents necessary to seek approval of such agreements in accordance with the requirements of Section 27-29-5(b)(4), Code of Alabama 1975, as amended. Southland expects to submit same for approval no later than December 4, 2002.

2. **Corporate Records – Page 8**

It is recommended that the Company comply with Departmental Regulation No. 37, Code of Alabama 1975, as amended, which states, "amendments to Articles of Incorporation and By-Laws should be filed with the Alabama Department of Insurance.

Corrective Action: Southland plans to file all amendments to its Articles of Incorporation and By-Laws with the Alabama Department of Insurance by no later than December 4, 2002.

3. **Committees-Page 9**

It is recommended that the Company comply with Section 10-2B-8.25(a), Code of Alabama 1975, as amended, which states "a board of directors may create one or more committees and appoint members of the board of directors to serve on them.

Corrective Action: Southland will comply with Section 10-2B-8.25(a) Code of Alabama 1975, as amended, when creating committees in the future.

4. **Accounts and Records-Page 17**

It is recommended that the Company set up procedures for adding individuals to the list of those authorized to have access to computer resources, changing their access capabilities or deleting them from this list.

Corrective Action: Southland has implemented procedures for adding individuals to the list of those authorized to have access to computer resources. Please note the procedures attached hereto.

In addition, the Disaster Recovery Plan manual is in the process of being completed. Included in this plan are tests and plans for continuation of business in the event the building and all records within it are destroyed.

Southland has implemented computer room security policies and procedures, and is working on training employees on how to implement the policies.

5. **Bonds, Preferred stocks and Commons stocks – Page 23**

It is recommended that the Company keep a separate record of all investments made under Section 27-41-35, Code of Alabama 1975, as amended.

Corrective Action: Southland will comply with Section 27-41-35, Code of Alabama 1975, as amended, by keeping a separate record of these investments.

It is further recommended that the Company non-admit any securities that do not meet the definitions of admitted assets as specified by Chapters 37 and Chapters 41 of the Alabama Insurance Code and the NAIC Accounting Practices and Procedures Manual.

Corrective Action: In regard to non-admitted securities, Southland has changed its procedure to non-admit any securities not specified by the Alabama Insurance Code and the NAIC Accounting Practices and Procedures Manual.

It is recommended that the Company comply with Regulation No. 98 and have all securities owned by an insurer valued by the Securities Valuation Office or non-admit the securities on all financial statements.

Corrective Action: In relation to Regulation 98, Southland will report investments in accordance with the Accounting Practices and Procedures Manual of the NAIC Securities Valuation Office.

It is recommended that the Company comply with Section 27-37-5(4), Code of Alabama 1975, as amended, and not value securities above the call price.

Corrective Action: Securities with call provisions will not be carried above the call price for the entire issue during any period within which the security may be called.

It is recommended that the Company comply with SSAP No. 43 and periodically report changes in payment assumptions and the resulting cash flows.

Corrective Action: Southland will review and update its prepayment speed assumptions and weighted average maturity dates periodically to ensure proper reporting per SSAP 43.

6. Mortgage Loans – Page 24

It is recommended that the Company either have the new parties to the mortgage servicing agreements sign assumption agreements assuming all the rights and obligations under the agreements or have all the parties involved sign new mortgage servicing agreements.

Corrective Action: Southland is in the process of evaluating the current mortgage service agreements to determine if the agreements should be terminated or assumed. Once the evaluation is complete, Southland will notify the Department.

It is further recommended that the Company comply with Section 27-29-5(4), Code of Alabama 1975, as amended, and have all the management and service agreements in which it is involved approved by the Commissioner.

Corrective Action: Southland is in the process of preparing all documents necessary to seek approval of such agreements in accordance with the requirements of Section 27-29-5(b)(4), Code of Alabama 1975, as amended. Southland expects to submit same for approval no later than December 4, 2002.

7. Investment incomes due and accrued – Page 24

It is recommended that the Company comply with SSAP No. 34 and non-admit investment income due and accrued on securities that should be written off.

Corrective Action: Southland will non-admit any investment income due and accrued per the provisions of SSAP No. 34.

8. **Receivable from parent, subsidiaries and affiliates – Page 25**

It is recommended that the Company comply with Section 27-29-5(4), Code of Alabama 1975, as amended, and have a cost sharing agreement with its affiliate, Collateral Benefits Group, Inc., approved by the commissioner.

Corrective Action: Southland has prepared and submitted to management for review a cost-sharing agreement with Collateral Benefits Group, Inc. Southland will submit this agreement to the Insurance Commissioner for approval by no later than December 4, 2002. Until approved, any such receivables from Collateral Benefits Group, Inc. will be non-admitted.

9. **Life policies and contract claims – Page 25**

It is recommended that the Company calculate its claims/benefits liability on all pending claims at year-end as a part of the overall liability for this line item.

Corrective Action: Southland has changed its procedures to calculate the claims/benefits liability for pending claims at each reporting period.

10. **General Expense Due or Accrued- Page 26**

It is recommended that the Company comply with the NAIC Annual Statement Instructions when reporting a liability as due to affiliates for expenditures incurred on behalf of the Company by a parent, affiliates or subsidiaries or for amounts owed through other intercompany transactions.

Corrective Action: Southland will report liabilities for parent, affiliates, and subsidiaries on the separate specified line per the NAIC Annual Statement Instructions .

We appreciate the opportunity to work with the Alabama Department of Insurance on these recommendations and to correct same before the end of 2002.

Sincerely,



LIZABETH R. NICHOLS

LRN/kpo
Enclosure

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Building and Computer Room Access

- Building Access:**

Access to the front and back doors of the main office is limited to employees of the company. (Employees assigned through a temporary agency do not receive door access cards until they are in the employ of Southland National.) Access is controlled by a computer monitored door access system using proximity cards. The network administrator, who controls network access, monitors and maintains the door access system. Access groups are assigned by department and employee rank within the company. Permanent changes of assignment between access groups can be changed by request from a vice president level or above. Temporary changes to access rights can be requested by a manager. Access groups to the building are assigned as follows:

Access Group	Includes	Front Door	Back Door	Computer Room	Computer Forms and Paper	Start Hours	End Hours
Executive	Officers	Yes	Yes	No	No	12:00 AM	11:59 PM
IS	IS EEs	No	Yes	Yes	Yes	12:00 AM	11:59 PM
Managers	Dept Managers	No	Yes	No	No	6:00 AM	8:00 PM
Acctg	Acctg personnel	No	Yes	No	Yes	6:00 AM	8:00 PM
Regular	Regular Hourly Staff	No	Yes	No	No	7:00 AM	6:00 PM

- Computer security policies and procedures**

The company has a Personal Computer Software Compliance Policy that each employee is to read and sign when they are hired. It is included in the employee manual. The compliance policy explains the company's stance on the use of personal computers and the issues that surround them including e-mail and Internet access.

- Monitoring and assignment of computer access rights**

Any new employee needing access to Southland National's computer systems must have access rights requested by their department manager. The department manager is to request access rights through an e-mail to the network administrator. The network administrator then forwards the request to the proper system analyst for rights granting on that AS/400 system.

Department	System	Manager	Systems Analyst
ALL	Network	ALL	Moncher Jones
SBACL	HBMS	Emma Gene Nunez	Gene Simth
AFP	LSP		Andy Gardino

New Business		Diane Beall	
Marketing		Randy Mathews	
PH Service		Jo Mansfield	
Compliance		Stuart Scott	
Accounting	EAS	Jeff Berry	Moncher Jones

The systems analyst then sets up the user based on the requirements for access expressed by the manager. For example, HBMS has both claims and billing functions. A user may have access to either or both. Similar constraints are used in LSP to limit access based on job functionality. For example, new business personnel do not have access to process claims.

In order to access all these systems the computer user must have a network login ID. All our administrative systems are accessed through the network as are e-mail and the Internet. Requests for network access are processed through our network administrator. Each user accessing the system must have a user name and password.

Access times to the network may be limited. The majority of hourly staff employees have access to the network Monday through Friday, 6:00 a.m. to 6:00 p.m. Officers and managers have access 7 days by 24 hours. This is set up using the security features of the network operating system. A manager can request a change to the hours of access for an employee for a certain period of time, i.e., one day, one week, one month, or special settings. The network administrator resets the access times for the employee when the period end.

User names and passwords are evaluated by the network operating system before access is granted to the workstation. If there is a mismatch of the username and password three times the user account is locked out. We do not require network users to change their passwords on a regular basis, although we encourage it. AS/400 passwords for LSP and HBMS are required to be changed every 90 days.

Logs are available on EAS, HBMS and LSP and the AS/400 regarding access times to the respective systems.

Tape Procedures – updated 10/1/2002

Daily Back-ups – Retention 20 working days (84 tapes)

LSP – Pre-processing daily tapes (M-F)
HBMS – Pre-processing daily tapes (M-R)
EAS – Pre-processing daily tapes (M-R)
Network DLT - (M-R)
Network Carousel DLT – (M-R)

* NOTE: HBMS and LSP are backed up to disk and then the disk backup is copied to tape.

Weekly Back-ups – Retention 13 weeks (65 tapes)

AS/400 Weekly - Includes HBMS, LSP, Source post-processing (W, F)
EAS – Post-processing (F)
Network DLT – (F)
Network Carousel – (F)
HBMS – Pre-processing (F)

Monthly Back-ups – Retention 12 months (84 tapes)

LSP – pre-Daily
pre-Weekly
pre-Monthly
post-Monthly
pre-G/L close
HBMS – pre-Daily
EAS – pre-Daily

Quarterly Back-ups – None

Annual Back-ups – Retention for 7 years (9 tapes)

LSP – pre-Daily
pre-Weekly
pre-Monthly
post-Monthly
pre-G/L close
pre-Year End
post Year End
HBMS – pre-Daily
EAS – pre-Daily

Tape System

The tape system will produce 2"x2" removable labels for all the tapes to be used in that week. The tape label will include the tape number, day of the week, date and a tape description. The tape label print out comes from the Tapes.mdb system used for tape library and operation scheduling.

Tape Storage

Operator will put each set of daily tapes in the fireproof vault/safe to be stored on-site overnight. There are six storage boxes to be used for storing the tapes. These are marked Monday through Friday with dates for the storage. Each day, the previous week's tapes for that day-of-the-week are stored in the tape filing system cabinet. Two days of tapes should always be stored in the safe.

Off-site Secure Storage

There are two Friday tape boxes, marked as #1 and #2. Data Management will pick up the current week's (ending Friday, i.e., #1) weekly back-ups on Monday morning. They will return previous week's (i.e., #2) back-ups for us to add to our tape storage. Tape boxes numbered #1 and #2 will be swapped each Monday.

The current month-end tapes are to be stored on-site in fireproof box, marked "Month End."

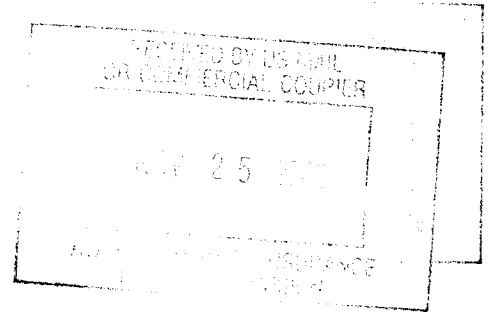
All annual tapes are to be stored off-site with Data Management at the end of the first quarter.



Southland National Insurance Corporation

November 22, 2002

Mr. Richard Ford
Alabama Department of Insurance
Examination Division
201 Monroe Street, Suite 1700
Montgomery, AL 36130



RE: Financial Condition Examination Report and Related Orders – Southland National

Dear Mr. Ford:

This is to provide requested information in relation to the above. Enclosed you will find:

1. Affidavits from the directors in regard to receiving the report.
2. An affidavit from Southland National in regard to providing the copy of the report to the directors for their review within 30 days of the issuance of the adopted report.
3. An affidavit from Southland National that a copy of the report has been filed with all licensing states and the NAIC.

Feel free to contact us with questions or if we can provide additional information. You may reach me at: 1-800-277-8762 or at 205-343-1267. My e-mail address is sscott@SNInsCorp.com.

Sincerely,

Stuart Scott
Assistant VP and
Compliance Officer



Southland National Insurance Corporation

November 22, 2002

Mr. Richard Ford
Alabama Department of Insurance
Examination Division
201 Monroe Street, Suite 1700
Montgomery, AL 36130

RE: Financial Condition Examination Report and Related Orders – Southland National
Request for Extension.

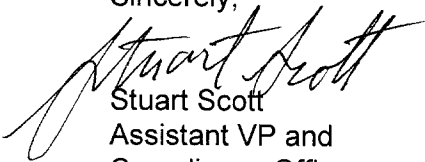
Dear Mr. Ford:

This is to request an extension in relation to the above. The information is going out in overnight mail today to arrive on Monday, November 25. This applies to the following information:

1. Affidavits from the directors in regard to receiving the report.
2. An affidavit from Southland National in regard to providing the copy of the report to the directors for their review within 30 days of the issuance of the adopted report.
3. An affidavit from Southland National that a copy of the report has been filed with all licensing states and the NAIC.

This is following up a telephone conversation I had with Spencer Lee on 11-21-02 and an E-mail I sent him on 11-22-02. We appreciate you working with us in this matter.

Sincerely,



Stuart Scott
Assistant VP and
Compliance Officer

CC: Mr. Spencer Lee

CERTIFICATION

I, Limbeth R. Nichols, a member of the Board of Directors of Southland National Insurance Corporation, do hereby certify that I have received a copy of the adopted report and related orders of the December 31, 2001 Financial Condition Examination report of the Company. The report was furnished to me within 30 days of the issuance of the adopted report.

By: _____

Sworn and subscribed before the undersigned authority on the 18th day of November, 2002.

Notary

Kelly P. O'Rear

My Commission Expires: 7/23/03

CERTIFICATION

I, Dennis E. Painter, a member of the Board of Directors of Southland National Insurance Corporation, do hereby certify that I have received a copy of the adopted report and related orders of the December 31, 2001 Financial Condition Examination report of the Company. The report was furnished to me within 30 days of the issuance of the adopted report.

By: 

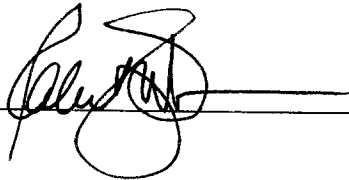
Sworn and subscribed before the undersigned authority on the 12th day of November, 2002.

Notary

Victoria P. H. Robertson
6/15/05

CERTIFICATION

I, ROBERT BEARNSTEN, a member of the Board of Directors of Southland National Insurance Corporation, do hereby certify that I have received a copy of the adopted report and related orders of the December 31, 2001 Financial Condition Examination report of the Company. The report was furnished to me within 30 days of the issuance of the adopted report.

By: 

Sworn and subscribed before the undersigned authority on the 13th day of November, 2002.

Notary Janet C. Brown

CERTIFICATION

I, Roger D. Murphree, a member of the Board of Directors of Southland National Insurance Corporation, do hereby certify that I have received a copy of the adopted report and related orders of the December 31, 2001 Financial Condition Examination report of the Company. The report was furnished to me within 30 days of the issuance of the adopted report.

By: Roger D. Murphree

Sworn and subscribed before the undersigned authority on the 19th day of November, 2002.

Notary Victoria H. Robertson
6/15/05

CERTIFICATION

I, W. H. LANFORD, a member of the Board of Directors of Southland National Insurance Corporation, do hereby certify that I have received a copy of the adopted report and related orders of the December 31, 2001 Financial Condition Examination report of the Company. The report was furnished to me within 30 days of the issuance of the adopted report.

By: W H Lanford

Sworn and subscribed before the undersigned authority on the 19th day of November, 2002.

Notary Victoria P. Roberts
6/15/05

CERTIFICATION

I, Stuart Scott, Assistant Vice President and Compliance Officer of Southland National Insurance Corporation, do hereby certify that a copy of the adopted report and related orders of the December 31, 2001 Financial Condition Examination report of the Company was provided to and reviewed by the board of directors within 30 days of the issuance of the adopted report.

By: Stuart Scott

Sworn and subscribed before the undersigned authority on the 19th day of November, 2002.

Notary Victoria P. Roberts
6/15/05

CERTIFICATION

I, Stuart Scott, Compliance Officer (office) of Southland National Insurance Company, do hereby certify that the Report of Examination of Southland National Insurance Company as of December 31, 2001, was filed with all states in which Southland National Ins. Company is licensed, and with the office of the National Association of Insurance Commissioners.

By: Stuart Scott

Sworn and subscribed before the undersigned authority on the 19th day of Nov., 2002.

Seal

Victoria P. H. Robert
Notary 6/15/05